

Pyramid Schemes:

How they work and why they are illegal

Pyramid schemes and gifting clubs are prohibited in Indiana. But clever promoters continue to take advantage of unsuspecting Hoosiers by selling their schemes in attractive packages that don't tell the whole story. Learn how to avoid these schemes, and keep more of your money in your pocket.

PYRAMID SCHEMES

There are no legal pyramid schemes. Pyramid promoters claim that members will make money by simply recruiting other members. It does not matter how the pyramid is set up, or if it allows members to leave after reaching a certain level. Pyramids are illegal because current members must continually recruit new members in order for the pyramid to survive. When there are not enough new members to sustain the current enrollment, the pyramid collapses, leaving most members out in the cold, never to see their original investment again.

GIFTING CLUBS

Gifting clubs are pyramid schemes that have participants fill out a "gifting" statement. This statement says the investor is giving a "gift" to other people in order to join. In reality, gifting clubs are illegal pyramid schemes where new members are promised money if they get additional members to join. Calling this scheme a "gifting club" is merely an attempt to make an illegal transaction look legal. Bottom line is that gifting clubs are also certain to eventually collapse.

MULTI-LEVEL MARKETING PLANS

Unlike pyramid schemes, multi-level marketing programs are legal in Indiana. Multi-level marketing plans are a way of selling goods and services through distributors. These types of pyramids typically promise that distributors will receive a profit from the goods they sell and a commission from the sales of other members, usually two or more "levels" of people that are recruited into the group. Multi-level marketing plans paying commissions based on sales by lower level distributors may eventually result in a financial loss due to a reduction of new distributors joining at lower levels.

These companies frequently advertise job positions; be aware that "interviews" for these positions may turn into high-pressure sales pitches. Potential candidates are told they can join the company only by purchasing a membership or a certain amount of product to resell.

MORE IMPORTANT INFORMATION

Under Indiana law, it is a violation to induce or to help induce just one person to join a pyramid. Therefore, it does not matter if you are not the person "running" the pyramid. You may be breaking the law by merely joining the pyramid.

RESOURCES

The Consumer Protection Division of the Indiana Attorney General's Office works to safeguard the rights of Indiana citizens every day. If you have questions or complaints regarding pyramid schemes, or other appropriate consumer issues, contact the Attorney General's Consumer Protection Division using the address and phone number listed below, or visit www.in.gov/attorneygeneral for more information.